

McDonald's
Corporation
2001 Summary
Annual Report



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<< **About the covers**

WHAT DO YOU HAVE A TASTE FOR?

People are eating out more often, and their tastes are becoming more adventuresome. As a result, they are demanding more variety...and McDonald's is listening.

Our New Tastes Menu—available in Australia, Canada, Hong Kong, Taiwan and the U.S.—is adding excitement and variety for customers through an ongoing rotation of product offerings.

Designed to firmly establish McDonald's as a place for variety, we are supporting our New Tastes Menu with advertising. We also are making it easy for customers to determine what's new by prominently featuring current selections on our menu boards. Our goal is to entice regular customers to visit us even more frequently and to attract new customers by satisfying their cravings for something different.

Pictured on the covers are McDonald's World Famous Fries, a rich triple-thick chocolate shake and some New Tastes Menu items recently or soon to be featured in the U.S. on a national or local level: the mouthwatering McPhilly Cheesesteak sandwich, the satisfying Cheddar Bacon Sausage McMuffin, the succulent crispy coated, all-white-meat Chicken Select Strips with zippy dipping sauces and the tempting Tin Roof Waffle Cone Sundae.

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McDonald's 2001 financial information, including management's discussion and analysis, consolidated financial statements and notes, is in the *McDonald's Corporation Annual Meeting Notice, Proxy Statement and 2001 Financial Information* and is available at www.mcdonalds.com/corporate/investor/financialinfo.

11-year summary

Dollars in millions, except per share data	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Franchised sales	\$24,838	24,463	23,830	22,330	20,863	19,969	19,123	17,146	15,756	14,474	12,959
Company-operated sales	\$11,040	10,467	9,512	8,895	8,136	7,571	6,863	5,793	5,157	5,103	4,908
Affiliated sales	\$ 4,752	5,251	5,149	4,754	4,639	4,272	3,928	3,048	2,674	2,308	2,061
Total Systemwide sales	\$40,630	40,181	38,491	35,979	33,638	31,812	29,914	25,987	23,587	21,885	19,928
Total revenues	\$14,870	14,243	13,259	12,421	11,409	10,687	9,795	8,321	7,408	7,133	6,695
Operating income	\$ 2,697 ⁽¹⁾	3,330	3,320	2,762 ⁽²⁾	2,808	2,633	2,601	2,241	1,984	1,862	1,679
Income before taxes	\$ 2,330 ⁽²⁾	2,882	2,884	2,307 ⁽³⁾	2,407	2,251	2,169	1,887	1,676	1,448	1,299
Net income	\$ 1,637 ⁽²⁾	1,977	1,948	1,550 ⁽³⁾	1,642	1,573	1,427	1,224	1,083	959	860
Cash provided by operations	\$ 2,688	2,751	3,009	2,766	2,442	2,461	2,296	1,926	1,680	1,426	1,423
Capital expenditures	\$ 1,906	1,945	1,868	1,879	2,111	2,375	2,064	1,539	1,317	1,087	1,129
Free cash flow	\$ 782	806	1,141	887	331	86	232	387	363	339	294
Treasury stock purchases	\$ 1,090	2,002	933	1,162	765	605	321	500	628	92	117
Financial position at year end											
Total assets	\$22,535	21,684	20,983	19,784	18,242	17,386	15,415	13,592	12,035	11,681	11,349
Total debt	\$ 8,918	8,474	7,252	7,043	6,463	5,523	4,836	4,351	3,713	3,857	4,615
				465	8,852	8,718	7,861	6,885	6,274	5,892	4,835
				56.2	1,371.4	1,389.2	1,399.5	1,387.4	1,414.7	1,454.1	1,434.5

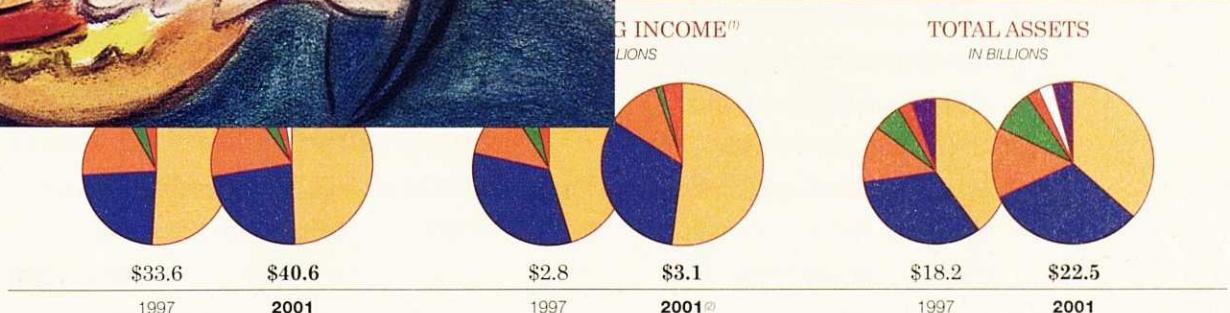
We're giving you more reasons to visit McDonald's more often...

business reorganization and other global change initiatives, and the closing of

million of net pretax special nonoperating income items primarily related to a gain on (\$143 million after tax or \$0.11 per share). Net income also reflects an effective certain international markets (\$147 million).

ated to the home office productivity initiative for a pretax total of \$322 million

Performance



● U.S. ● Europe ● Asia/Pacific, Middle East and Africa ● Latin America ● Canada ○ Partner Brands ● Corporate

(1) Graph excludes Corporate segment and Partner Brands.

(2) Excludes special charges of \$378 million.

In 2002, we plan to add between
1,300 and 1,400 McDonald's
restaurants, as well as open
100 to 150 new restaurants
under our Partner Brands.

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**...and added variety
is just one reason.**



So, whether you have a taste for something a little different or a craving for old favorites, like an Egg McMuffin with hash browns or a Big Mac with fries, stop by your local McDonald's and enjoy one of our many great tastes.

11-year summary

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Franchised sales	\$24,838	24,463	23,830	22,330	20,863	19,969	19,123	17,146	15,756	14,474	12,959
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Total debt	\$ 8,918	8,474	7,252	7,043	6,463	5,523	4,836	4,351	3,713	3,857	4,615
Total shareholders' equity	\$ 9,488	9,204	9,639	9,465	8,852	8,718	7,861	6,885	6,274	5,892	4,835
Shares outstanding <i>IN MILLIONS</i>	1,280.7	1,304.9	1,350.8	1,356.2	1,371.4	1,389.2	1,399.5	1,387.4	1,414.7	1,454.1	1,434.5
Per common share											
Net income	\$ 1.27 ⁽²⁾	1.49	1.44	1.14 ⁽³⁾	1.17	1.11	.99	.84	.73	.65	.59
Net income—diluted	\$ 1.25 ⁽²⁾	1.46	1.39	1.10 ⁽³⁾	1.15	1.08	.97	.82	.71	.63	.57
Dividends declared	\$.23	.22	.20	.18	.16	.15	.13	.12	.11	.10	.09
Market price at year end	\$ 26.47	34.00	40.31	38.41	23.88	22.69	22.56	14.63	14.25	12.19	9.50
Franchised restaurants	17,395	16,795	15,949	15,086	14,197	13,374	12,186	10,944	9,918	9,237	8,735
Company-operated restaurants	8,378	7,652	6,059	5,433	4,887	4,294	3,783	3,216	2,733	2,551	2,547
Affiliated restaurants	4,320	4,260	4,301	3,994	3,844	3,216	2,330	1,739	1,476	1,305	1,136
Total Systemwide restaurants	30,093	28,707	26,309	24,513	22,928	20,884	18,299	15,899	14,127	13,093	12,418

(1) Includes \$378 million of pretax special operating charges primarily related to the U.S. business reorganization and other global change initiatives, and the closing of 163 underperforming restaurants in international markets.

(2) Includes the \$378 million of pretax special operating charges noted above and \$125 million of net pretax special nonoperating income items primarily related to a gain on the initial public offering of McDonald's Japan, for a net pretax expense of \$253 million (\$143 million after tax or \$0.11 per share). Net income also reflects an effective tax rate of 29.8 percent, primarily due to the one-time benefit of tax law changes in certain international markets (\$147 million).

(3) Includes \$162 million of Made For You costs and the \$160 million special charge related to the home office productivity initiative for a pretax total of \$322 million (\$219 million after tax or \$0.16 per share).

5-year performance



● U.S. ● Europe ● Asia/Pacific, Middle East and Africa ● Latin America ● Canada ○ Partner Brands ● Corporate

(1) Graph excludes Corporate segment and Partner Brands.

(2) Excludes special charges of \$378 million.

In 2002, we plan to add between
1,300 and 1,400 McDonald's
restaurants, as well as open
100 to 150 new restaurants
under our Partner Brands.

Dear shareholder:

From many different perspectives, 2001 was one tough year.

It was a year in which the strength and resolve of the United States was tested. It was a year in which the resourcefulness of many of the world's best-known companies, including McDonald's, was tested.

Clearly, I am disappointed in McDonald's global business performance. I also am deeply concerned about the erosion in total shareholder value that has occurred as a result.

Our 2001 performance was hampered by the strong U.S. dollar and weak economies in

many countries in which we operate. And obviously, the tragic events of September 11 have had an impact.

Additionally, despite McDonald's outstanding quality and safety record, our business suffered from consumer concerns about beef safety in Europe and Japan. Fortunately, this negative impact was significantly less on our business than on other companies selling beef in these markets, because so

many customers knew they could trust our high standards.



**Our goal for 2002
is to leverage
our powerful
strengths to
improve
performance
and ensure that
our foundation
for growth is
rock solid.**

Let me state the obvious: we can and must do better than the 4 percent constant currency sales increase we generated in 2001. We must deliver the kinds of growth in sales and profits that can make a positive difference in the value of your investment in McDonald's.

The reality is there will always be challenges. It is our job to manage through the challenges by leveraging our strengths to overcome them. We often tell our children, "With challenges come opportunities." The same is true for businesses. So, more than ever before, McDonald's must adapt and evolve to seize opportunities as they unfold.

Over the years, three core strengths have driven our business success. They differentiate McDonald's from other companies, are not easily imitated and can be leveraged to create a significant benefit for consumers and shareholders. We intend to build on these strengths to return our business to double-digit growth.

The first is our ability to forge bonds of trust with customers throughout the world. People know they can enjoy the same great taste of a Big Mac whether they are at a McDonald's in Paris, France, or Paris, Texas. They also know that they can rely on McDonald's high-quality and safety standards.

The second strength is our expertise in finding, negotiating, building and managing a complex network of real estate locations. This is evidenced by the fact that we operate more

**Last year, McDonald's served
46 million customers a day,
an increase of more than 1 million
customers a day compared
with 2000.**

McDONALD'S VISION:

BE THE WORLD'S BEST QUICK-SERVICE RESTAURANT EXPERIENCE

To achieve our vision, we will:

BE THE BEST EMPLOYER for our people in every market around the world, as only satisfied employees can deliver the friendly, efficient service customers want and deserve

DELIVER EXCEPTIONAL CUSTOMER EXPERIENCES through a combination of great-tasting food, outstanding service, exciting promotions, inviting restaurants and reliable value

EXPAND OUR POWERFUL BRAND by using innovation and technology to enhance customer experiences for years to come

LEVERAGE THE SYSTEM'S STRENGTHS by developing new business concepts

SOLIDIFY OUR LEADERSHIP IN SOCIAL RESPONSIBILITY by giving back to our communities and making the world a better place for future generations

By doing this, we will:

ACHIEVE ENDURING, PROFITABLE GROWTH

than 30,000 conveniently located points of distribution in 121 countries across the globe.

The third strength is our ability to execute a retail business model successfully in markets around the world. This is about finding the right balance on the global-local continuum... about being able to train and develop a diverse group of employees, franchisees, joint-venture partners and suppliers who are committed to core principles and operating systems.

These are powerful strengths. Our goal for 2002 is to leverage them to improve performance and ensure that our foundation for growth is rock solid. We are holding ourselves accountable for results.

First and foremost, we plan to improve the customers' experience, especially in markets where our customer satisfaction scores have slipped. Frankly, this is unacceptable.

We have rededicated ourselves to giving customers the world over an outstanding experience on each and every visit to McDonald's. We know that if we raise the bar on the Quality, Service, Cleanliness and Value we deliver, customers will visit our restaurants more often.

We also made important changes in 2001 to help us achieve better results.

We restructured our global organization to create clearer lines of accountability and

McDonald's global supply infrastructure is unparalleled, allowing us to achieve economies of scale and offer great values to customers.

greater role clarity in our hamburger business. We created a single point of leadership for our Partner Brands to help us capture more meal occasions outside the reach of McDonald's. We also elevated the role of corporate strategy and business development in order to accelerate ideas for growing our existing businesses and to identify new business opportunities.

In addition, we implemented a number of initiatives around the world in 2001 that are expected to generate ongoing annual savings of about \$100 million in selling, general and administrative expenses, starting this year.

In the U.S., we have streamlined the responsibilities of our field staff so they can focus more attention on the Quality, Service and Cleanliness that our customers receive. We have improved training for our restaurant managers to enhance their ability to adapt to changing situations in their day-to-day restaurant environments. We are compiling more objective customer perspectives and using an enhanced national restaurant evaluation system. And, we are providing more menu variety and are implementing programs to improve customers' perception of the value we represent. Importantly, we are linking employee compensation more directly to customer satisfaction, as well as to financial performance.

We won't see the results of these U.S. initiatives overnight. But our customers will begin to see a noticeable difference as the year progresses.

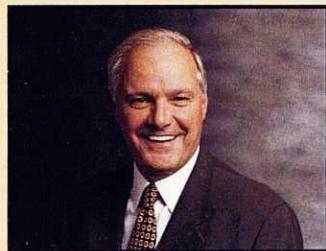
In 2001, we implemented a similar change initiative across Europe. Called EuroMission, the goal is to increase sales and transactions by collaborating on strategies and implementing programs that drive employee satisfaction, customer service and value.

With consumer concerns regarding the safety of the European beef supply largely behind us, our management team is moving quickly to take advantage of improved business conditions.

On the other hand, we expect the weak economic conditions in many Asian and Latin American markets to continue for some time. Yet, these countries represent an enormous long-term opportunity for McDonald's, given their potential for economic growth and their large populations. Accordingly, in the short term, we are focusing on increasing our affordability and building our brand.

While attractive prices are important everywhere, they are especially important in countries experiencing economic difficulties and where income levels are often low. To profitably support the great value we offer in these challenging—yet promising—countries, we have been, and continue to be, focused on improving our cost structures. And since attractive prices alone are not enough, we are intent on strengthening the preference for McDonald's by delivering on the basics of cleanliness, quality and speed of service and by providing experiences that build bonds with kids and families.

A TRIBUTE TO A
McDONALD'S VISIONARY



Jim Cantalupo, who most recently served as McDonald's Vice Chairman and President, has announced plans to retire after 28 remarkable years of service.

Jim joined the Company as Controller in 1974. Over the years, he held numerous operations management positions in the U.S. business before assuming responsibility for McDonald's international operations in 1987. At that time, the System had nearly 2,350 restaurants in 46 countries outside the U.S. Thanks to Jim's vision and leadership, today the Company has an international presence approaching 16,000 restaurants in 120 countries. He truly has been a driving force and chief builder of the greatest global retail business ever developed.

Jim's achievements are legendary, and literally each of the 1.5 million members of the McDonald's Family owes him a debt of gratitude for his outstanding contributions.

ideals that have won the trust of so many the world over.

McDonald's global management team, which I believe is one of the most talented in the world, shares my sense of urgency to deliver improved results. Further, that sense of

Globally, we plan to add between 1,300 and 1,400 McDonald's restaurants in 2002. These plans reflect our intent to be cautious with investments in markets that are experiencing economic difficulties and to increase openings in those markets with attractive near-term opportunities.

Collectively, the actions we have taken are designed to create a stronger, more nimble McDonald's—a global organization that is leaner and better aligned, a management group that is more focused and more accountable, and a worldwide corps of owner/operators, joint-venture partners, developmental licensees, employees and suppliers that is committed to the

urgency permeates the entire organization of owner/operators, suppliers and employees.

Our shareholders should expect nothing less.

We are a System with a long heritage of success. Certainly, we are not pleased with recent performance. At the end of the day, there can be no excuses...legitimate or otherwise.

The many changes and initiatives we have undertaken, combined with our powerful brand and lead position in most markets in which we do business, put us in an excellent position to improve results.

And that's what we intend to do.

In closing, I want to thank you for your continued confidence in McDonald's. We deeply appreciate your trust. I am confident that the McDonald's System can, and will, return the business to the kind of growth you expect and deserve.

Sincerely,

Jack M. Greenberg

*Chairman and Chief Executive Officer
Shareholder*

March 12, 2002

**McDonald's brand is strong, and
our business is resilient.
We have taken action to improve
our customers' experience and
drive long-term success.**

Perspectives from our CFO

In July 2001, Matt Paull was appointed Executive Vice President and Chief Financial Officer of McDonald's Corporation. Prior to becoming CFO, he was the Company's Senior Vice President—Finance. Matt brings a wealth of business experience, as well as financial expertise, to the position. The brief interview that follows is provided to introduce Matt to investors.

How do you see your role as CFO?

I view my role in very broad terms. Of course, measuring growth in sales and income, as well as improvements in returns, margins and other financial metrics are critical to gauging performance. I oversee the establishment and measurement of those metrics to ensure that we are focused on building the business for the benefit of shareholders.



...we are holding our people more accountable and are tying their compensation more directly to results.

as well as other customer satisfaction attributes—ultimately will determine whether we achieve our financial goals.

How is the Company determining whether important nonfinancial goals are being met?

We are assessing the quality of our customers' experiences with metrics that are both timely and actionable. More specifically, we have calibrated and refined our measurement criteria and essentially eliminated the subjectivity that often creeps into evaluation processes. Perhaps more importantly, we are holding our people more accountable and are tying their compensation more directly to results.

How have world economic situations impacted the Company's expansion plans?

Opening profitable restaurants is part of our growth strategy. We have the financial capacity to invest for the long term. At the same time, we plan to invest prudently.

When planning openings, we consider each market's current economic conditions, long-term demographic and lifestyle trends, competitive environment and stage of development, as well as the potential effect on existing McDonald's restaurants and returns.

Based on these criteria, we reduced the number of restaurant additions over the past few years and expect to add 1,300 to 1,400 McDonald's restaurants in 2002. About 60 percent of these openings will be in the U.S., Europe and Canada, where economies are relatively stable and returns are strong. We also are adding restaurants in China, where the near-and long-term growth potential is enormous.

At the same time, we are reducing openings in markets with weak economic environments until we see signs of improvement. Since we already have a clear competitive lead in these countries, this temporary slowdown makes good business sense.

In addition, we plan to open 100 to 150 new restaurants under our Partner Brands in 2002.

What are McDonald's priorities for using the cash it generates?

McDonald's consistently generates a significant amount of cash from operations, and our focus remains on using that cash to enhance shareholder value.

Clearly, our priority is to invest in growing the business—first by investing in Brand McDonald's and second, by investing in our Partner Brand concepts. Our goal is to put our cash to work to capture more meal occasions and to generate attractive returns in the process.

Further, since our annual cash from operations is more than \$2.5 billion, a sizeable amount remains after making capital expenditures. We deploy that excess cash—together with our credit capacity—to repurchase shares of McDonald's stock and to pay dividends—both uses that benefit shareholders.

We continue to achieve returns in excess of our cost of capital, and our objective is to increase returns over time.

research tells us...

PEOPLE ARE EATING OUT MORE THAN EVER BEFORE.

Expenditures on food and drink away from home in the U.S. are expected to increase by \$87 billion—in real terms—during the 10-year period ending December 2010.

Time pressure is a key factor causing increased demand for food service in major markets around the world.

THE MORE PEOPLE EAT OUT, THE MORE VARIETY THEY WANT.

Due to the desire for a greater variety of tastes and experiences, new food categories are emerging—such as “fast casual,” which combines quick counter service and value pricing with the menu and atmosphere of a casual restaurant.

ONE BRAND CAN'T BE ALL THINGS TO ALL PEOPLE.

People choose where to eat based on situational factors, such as with whom they are dining...how much time they have... what is convenient or available...how much money they want to spend... the atmosphere they are seeking...and the type of food they are craving.

THERE IS A LOT OF OPPORTUNITY FOR GROWTH.

In our 10 largest markets, McDonald's share of total commercial meals is 12 percent...and assuming that people eat three meals a day, our share of total meals consumed is less than 1 percent.

McDonald's is pursuing opportunities to serve more customers, more meals—and to do so more frequently—by offering convenience, value, taste and variety.





McDonald's is the place for a

Big Mac and World Famous Fries

...and a whole lot more.

we're broadening our appeal

The vast majority of McDonald's future growth will come from our core hamburger business, which we are determined to grow to its fullest potential.

To start, we are building on our strengths.

McDonald's is already a favorite with kids and families. We have terrific Happy Meals and PlayPlaces... we're the home of Ronald McDonald...and we connect with kids of all ages through our relationship with Disney.

We are building on this special bond with our **Mighty Kids Meal**, the perfect transition meal for youngsters between the ages of eight and 10. The Mighty Kids Meal satisfies their growing appetites with larger entrées, such as **double cheeseburgers** or six-piece **Chicken McNuggets**,

along with a small fry and drink, while still providing great Happy Meal toys.

We also are reinforcing our powerful relationship with kids by appealing to their sense of fun. Notably, we are enhancing the play areas in a number of our restaurants around the world by adding interactive electronic game centers, such as Kidzspace.

McDonald's is also top of mind when customers want a hand-held meal on the run. So, we are making a visit to McDonald's more convenient by speeding up service and improving the quality of the overall experience. (See story on page 21.)

In addition, we are creating new sales and profit generators by increasing the variety we offer. While we are often the first place customers think of

when they have a craving for great-tasting hamburgers and fries, we're not always top of mind when they have a taste for something different. So, we have made it a priority to gain recognition as a place for variety, as well as value.

Customers in the U.S. now have more choices, including **Fruit 'N Yogurt Parfaits**, **McSalad Shakers** and **Breakfast Bagel** sandwiches, as well as traditional favorites, such as **Big Mac** and **Quarter Pounder** sandwiches.

In several European markets, we offer large beef sandwiches, similar to France's popular, promotional, premium **Le 280**. And customers in the U.K. and Belgium are giving a thumbs up to our new **McChicken Premiere** sandwich—a tasty chicken breast patty, leaf lettuce, salsa and sour cream on a focaccia bun.

In many Asian markets, where customers prefer chicken to beef, we offer an array of chicken products—including **Chicken McCrispy**, **Spicy McWings** and the **Spicy Chicken Filet Burger**—designed to appeal to local tastes. In addition, we are exploring ways to add value and variety to our menus throughout Asia with new fish, pork and rice products.

We also are mixing it up a bit and offering customers ongoing food news with our **New Tastes Menu** in Australia, Canada, Hong Kong, Taiwan and the U.S. This rotating menu allows markets to select and showcase limited-time taste offerings from a wide variety of breakfast, entrée and dessert pleasers. For example, the **Outback Omelette McMuffin**—a pepper and onion omelet served on a toasted English muffin with bacon, cheese and a tangy BBQ sauce—is a popular choice among customers Down Under.

In addition, we are exploring ways to increase variety by giving customers more flexibility with our **Menú a Tu Pinta**, which is available throughout Chile, and our **McPick Value Meal** menu, which is in a small market test in the U.S. These menus allow customers to create their own value meal by selecting one of several entrées and two side items from seven choices, which include side McSalad Shakers, hot apple pies, French fries and soft drinks. And for those who prefer to dine a la carte, we are testing value menus that highlight products, such as cheeseburgers, McChicken sandwiches and soft serve cones, that are available everyday for \$1 or less. Currently, such menus are available in more than 4,000 McDonald's restaurants across the U.S.

Looking forward, we will continue to stir the pot and cook up new and different ways to give customers around the world compelling kinds of tastes, variety, values and experiences that will make them choose McDonald's again and again.

The restaurant industry's share of U.S. food dollars has grown from 25% in 1955 to 46% today...and it is expected to grow to 53% by 2010.

National Restaurant Association



CREAM CHEESE & JAM BAGEL
NEW ZEALAND



SPICY CRISPY CHICKEN
U.S.



McMUFFIN A LA MEXICANA
MEXICO



McHERO
U.S.



McAFRIKA
NORWAY



HOT HAM 'N CHEESE
U.S.



TERIYAKI BURGER
JAPAN



CHICKEN FAJITA
U.S.



LE 280
FRANCE



CRISPY CHICKEN McCLUB
U.S.



McPOLLO PREMIUM
CHILE



OUTBACK OMELETTE
McMUFFIN
AUSTRALIA

**A sampling of McDonald's
menu variety**

Pictured are just a few of
McDonald's permanent and
promotional products from
around the world.



VEGGIE SURPRISE
INDIA



ASIAN McSALAD
U.S.



BULGOGI BURGER
SOUTH KOREA



DRUMSTICK McFLURRY
U.S.



SPICY CHICKEN
FILET BURGER
CHINA



McRIB
U.S.



McCHICKEN PREMIERE
U.K.



BERRY CHERRY
FRUIT 'N YOGURT PARFAIT
U.S.



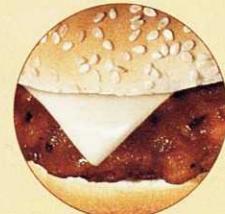
POUTINE
CANADA



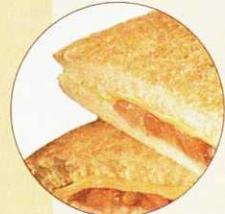
BBQ BACON
BIG N' TASTY
U.S.



SPICY McWINGS
HONG KONG



CHICKEN BREAST PARMESAN
U.S.



CHEESE AND TOMATO
TOASTED SANDWICH
AUSTRALIA



BIG McBACON
CHEESEBURGER
U.S.



CHICKEN McCRISPY
SINGAPORE



MOUNTAIN RASPBERRY
SHAKE
U.S.



McBLT
U.S.



McGOLDEN CORN SOUP
HONG KONG



JOHNSONVILLE BRAT
U.S.



EGG McQUESO
COSTA RICA



CHILE CHEESE McDOUBLE
U.S.





A color photograph of two young children, a boy and a girl, laughing together. The boy, on the right, has dark hair and is wearing an orange corduroy shirt over blue overalls. He is holding his hands near his mouth as if laughing. The girl, on the left, has short brown hair and is wearing a pink floral patterned top. She is also laughing. They appear to be in a restaurant or cafe setting.

McDonald's is a trusted friend

among kids...and grown-ups, too.



A close-up photograph of a person eating breakfast at a McDonald's restaurant. In the foreground, a hand holds a white plastic fork with a bite of hash brown potatoes. Below the fork is a white paper tray containing a breakfast meal: two eggs, a sausage patty, and two hash brown potatoes. To the right of the tray is a white paper coffee cup with the McDonald's logo. In the background, another person is visible, wearing a striped shirt and holding a newspaper. The scene is set in a bright, modern McDonald's interior.

McDonald's serves up great

experiences all day long.

we're exploring new avenues of growth

G

rowing the core McDonald's business is our number one priority.

At the same time, we know customers want—and are spending their eating-out dollars on—a variety of foods and dining experiences. So, we plan to supplement the growth of our core business and add shareholder value with a portfolio of Partner Brands—concepts that we believe will make a meaningful contribution to earnings over the next five to 10 years.

We embarked on our Partner Brand strategy in 1998, with the purchase of a minority interest in Chipotle

Mexican Grill, which then consisted of 14 restaurants in Denver, Colorado. Today, we have a portfolio of four Partner Brand concepts—Boston Market, Chipotle, Donatos Pizzeria and Pret A Manger. Collectively, they generate approximately \$1 billion in annual sales. To put this in perspective, there are only 12 quick-service restaurant chains with more than \$1 billion in annual sales.

For our strategy to succeed, we must ensure that we have the right portfolio of Partner Brands. Accordingly, we have established very specific criteria against which to measure each brand's potential. It must demonstrate broad consumer appeal. It must have a scalable, replicable business model that produces returns that exceed our cost of capital. It also must have the long-term potential to have thousands of restaurants.

We think our Partner Brands are best-in-class players in their respective large and growing

market segments. Here's a brief rundown on each brand.

Boston Market serves the needs of increasingly time-pressed consumers who want a home-style meal without the fuss. With more than 650 restaurants across

the country, Boston Market is targeting the \$18 billion U.S. home-meal replacement opportunity with selections that include rotisserie chicken, grilled chicken, ham, meatloaf and a wide array of salads, side dishes and desserts. Customers can choose to take their meals home or dine in the restaurant. They also can take advantage of Boston Market's catering service. In early 2002, we opened our first Boston Market in Australia, and we have plans to open in Canada by year end.

Chipotle, which operates more than 175 restaurants, offers fresh, gourmet burritos and tacos in an energetic, contemporary atmosphere. Credited by some industry analysts as pioneering a new category—"fast casual"—Chipotle competes within and beyond the \$13 billion U.S. Mexican restaurant segment. This concept's unique style and flavorful food combinations have generated a loyal customer following and strong positive comparable sales growth.

Donatos Pizzeria competes in the \$24 billion U.S. pizza segment. With nearly 200 restaurants across the U.S., Donatos is known for world-class, thin-crust pizza with fresh Edge-to-Edge toppings. Donatos enjoys a loyal following in its home market of Columbus, Ohio, and plans to build brand awareness and further differentiate itself from the competition with a new and inviting pizzeria format. Building on a heritage of innovation, this new format accommodates varied lifestyles with dine-in, take-out and delivery service, as well as a call-ahead pick-up window and catering options. The first Donatos in Germany is scheduled to open later this year.

Pret A Manger, in which we have a minority interest, sells upscale, ready-to-eat sandwiches that are prepared daily on the premises. Pret is relatively new to the \$30 billion U.S. cold sandwich segment with seven shops in New York City, and competes in the \$5 billion U.K. segment, with more than 115 shops there. The concept's popularity is evidenced by its strong comparable sales increases in 2001. Pret opened its first shop in Hong Kong early this year and has plans to open in Japan.

We believe these four brands have a lot of potential. We will nurture and grow each carefully and will scale a brand only after it demonstrates that it can meet our stringent criteria. In the end, we will leverage our resources and competencies to capture more meal occasions around the world—both under and beyond The Golden Arches.

COOKING UP NEW POTENTIAL



The two-square mile trading area in Dublin, Ohio, pictured above, is home to three successful McDonald's restaurants with combined annual sales of \$5.1 million. Frankly, there is little room for an additional McDonald's in the neighborhood. However, we also operate a Chipotle, a Boston Market and a Donatos Pizzeria in the area, each generating about \$1 million or more in annual sales.

Together, these six restaurants—representing four different brands, serving four different meal occasions—generate \$8.2 million in annual sales. That's 60 percent more than we would have generated with McDonald's restaurants alone.

Americans no longer consider going out to eat a luxury. It has become an integral part of their lives.

Yankelovich Partners

Boston Market

Many consumers want an alternative to cooking that allows them to slow down and spend more time with loved ones.

Boston Market offers fresh, delicious home-style meals —without the hassle of preparation and cleanup.

<< CHICKEN WHITE-MEAT INDIVIDUAL MEAL WITH MASHED POTATOES, STEAMED VEGETABLE MEDLEY AND CORNBREAD



Chipotle

Chipotle's recipes are original and innovative, using only the finest ingredients. The guacamole is made fresh daily, and marinated meat is grilled throughout the day.

<< CHICKEN TACOS



Unique in the mainstream pizza category, Donatos' menu includes a distinctive line of Signature Pizzas, plus a selection of oven-baked Big Don Subs and fresh, crispy salads. But it's the Edge-to-Edge toppings that have made Donatos famous.

<< "THE WORKS" PIZZA



★ PRET A MANGER ★

Pret creates hand-made, natural food.

If it's not natural, it's not Pret.

All Pret's sandwiches, baguettes and wraps are made fresh daily in every shop.

<< THAI CHICKEN SANDWICH WITH PRET COOL LEMON DRINK

experience tells us...

McDONALD'S IS UNIQUELY SUITED TO TAP INTO THE GROWING EATING-OUT DEMAND AROUND THE WORLD.

We manage a complex network of 30,000 local community restaurants in 121 countries and are adding more than 1,300 restaurants annually.

McDONALD'S IS ONE OF THE MOST POWERFUL BRANDS IN THE WORLD.

McDonald's is a brand that customers the world over recognize and trust.

McDonald's is known as a great place for kids and families; for convenient, hand-held meals; for World Famous Fries and Big Macs; and for outstanding value.

We are building on these strengths, while also innovating to become top of mind as a place for taste and variety.

McDONALD'S PORTFOLIO OF PARTNER BRANDS SERVES NEEDS BEYOND THOSE THAT BRAND McDONALD'S CAN FILL.

Through Boston Market, Chipotle, Donatos Pizzeria and Pret A Manger, we are meeting customers' desires for a variety of foods and dining experiences.

WE ARE IN AN EXCELLENT POSITION TO CAPTURE MORE MEAL OCCASIONS BOTH UNDER AND BEYOND THE GOLDEN ARCHES.

We are leveraging our competencies to seize new growth opportunities... while, at the same time, maximizing the potential of the existing McDonald's business.

Putting sparkle in our service

One of our key global growth strategies is to deliver exceptional customer experiences through a combination of great-tasting food, outstanding service, exciting promotions, inviting restaurants and reliable value.

However, even the very best food, promotions, restaurants and value are meaningless without top-notch service.

But what exactly is outstanding service? And how are we doing?

Outstanding service starts with a welcoming smile and ends with a satisfied customer. Although we often get high marks from customers, both internal and external data indicate that at times we miss the mark.

So, we're taking action.

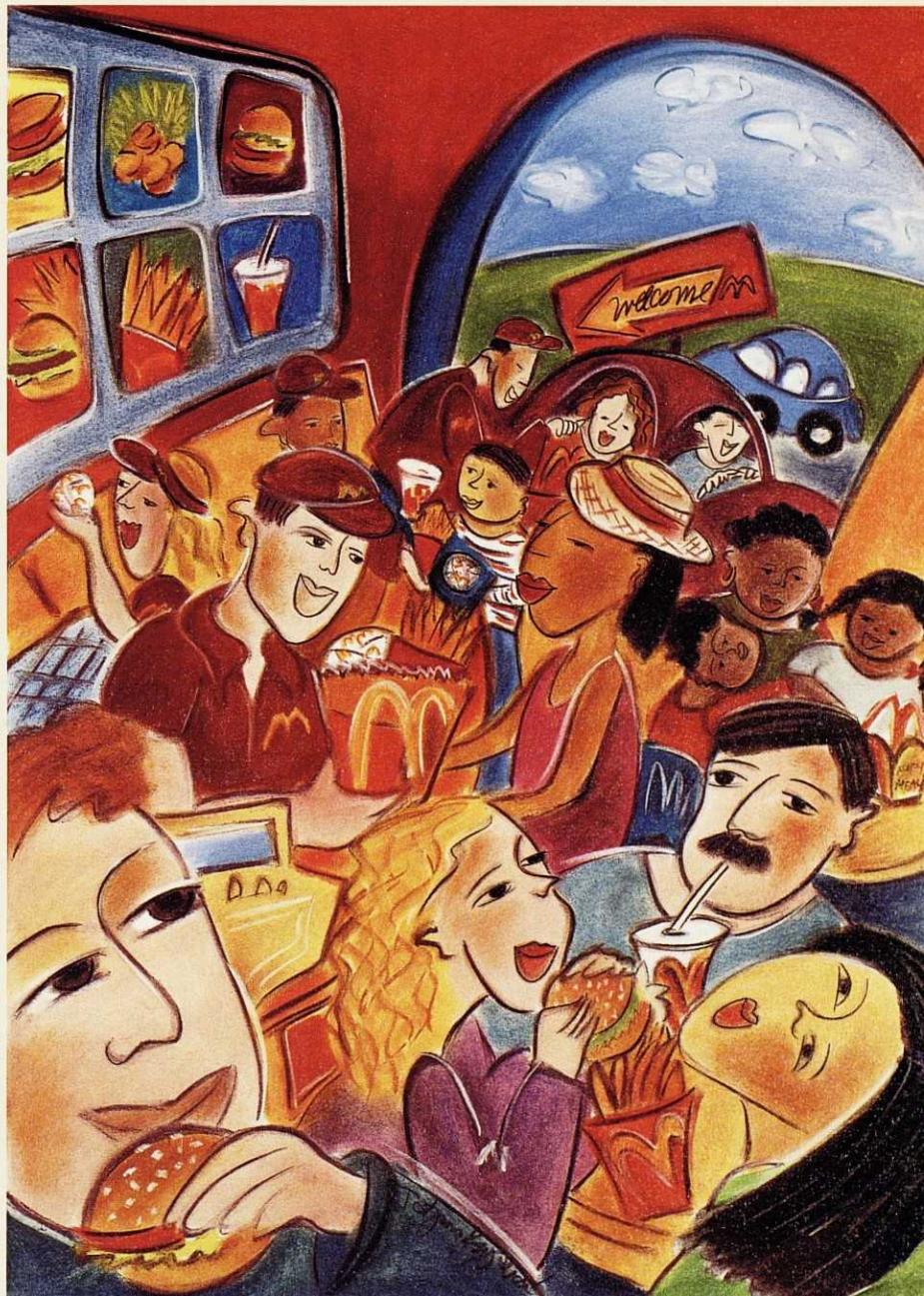
The following are just some initiatives underway to put sparkle in our service.

TRAINING FOR THE UNEXPECTED

Our restaurant teams must have the knowledge and tools needed to deliver great customer experiences. So, training is an ongoing priority for McDonald's.

An enhanced training program that is being rolled out in the U.S. teaches our restaurant managers how to plan and prepare for each shift by simulating a variety of scenarios. For example, they are being taught how to optimize customer service if several crewmembers cannot make it into work or if busloads of hungry tourists unexpectedly arrive at the same time.

Such simulations really pay off. Restaurant teams that have gone through this training are finding it easier to do their jobs. They are more focused and more productive than before, and their



shifts run more smoothly. Most importantly, they are giving our customers the fast, friendly service they deserve.

KEEPING IT SIMPLE

Our people in the U.S. are eliminating non-value-added restaurant activities while optimizing our menu, merchandising and operations—all to the benefit of the customer.

**"Look after the customer,
and the business
will take care of itself."**

Ray Kroc, McDonald's Founder

Such efforts are part of an ongoing simplification process that focuses on big and small changes, such as using easy-to-open sauce tubes...eliminating menu items that don't sell well...streamlining inventory management by consolidating cup and lid sizes...and using fewer, more targeted point-of-purchase materials.

As appropriate, these simplification initiatives will be shared with other markets around the world, making our restaurants more employee and customer friendly.

DIVIDING AND CONQUERING

More and more of our restaurant staffs in Japan, the U.S. and Latin America are using a new team-based service approach to enhance our customers' front-counter experiences. It's really simple: one crewmember takes the order and payment, while another assembles and presents the order.

It's fast, too. Using this system, the crew at a McDonald's on the Pennsylvania Turnpike served a caravan of seven buses in 35 minutes, less than half the time it otherwise would have taken. Also, our people in Venezuela and Costa Rica attribute increases in transactions and average checks to the better customer/crew interaction resulting from this servicing technique.

In light of these positive results, we are beginning to test this team approach to wowing our customers in a number of other countries.

FASTER IS BETTER

Customers using the drive-thru tend to be pressed for time. So, we continue to focus on improving the speed of our drive-thru service.

We are exploring opportunities to enhance the drive-thru experience by serving two cars at a time. In some locations, we are using double-lane drive-thrus. In others, crew people equipped with remote order-taking devices are assisting drive-thru customers during busy periods.

Adding a creative twist to branding speed of service at the front counter, as well as in the drive-thru, we have adopted a Formula 1 racecar-inspired approach in a number of Asian markets. Racing-

themed signs and uniforms, as well as timers and crew incentives, make the program fun for crew and customers alike. In Indonesia, where this approach originated, we have rung up double-digit comparable sales increases for the past two years. Further, 95 percent of our transactions in that market have been completed in 60 seconds or less.

NO MONEY... NO WORRY

We also are exploring alternative payment methods to make a visit to McDonald's more convenient.

Customers now can pay for their McDonald's meal by swiping electronic devices or credit/debit cards past an electronic reader at a number of McDonald's restaurants around the world. For example, more than 400 restaurants in the Chicago, Illinois, region accept Mobil Speedpasses as a payment method, and many of our restaurants in Australia, Denmark, France, Germany and New Zealand accept credit or debit cards. In some cases, customers can even get cash back.

This payment option not only speeds service, but customers are finding that being short on cash does not mean having to pass up a meal at McDonald's.

NOT SO MYSTERIOUS AFTER ALL

We are putting ourselves in our customers' shoes. We are introducing mystery shopper programs in countries where we have not used them and stepping up their use in those that do.

In essence, mystery shoppers are "undercover" restaurant visitors who evaluate the experience from a customer's perspective. The results of mystery shops, which are often accompanied by crew and manager incentives for excellent performance, are helping our restaurant staffs to celebrate successes and identify training opportunities. In addition, the feedback is being used to assist each restaurant's management team to develop action plans to raise the bar on service levels.

We believe this relevant measurement tool will drive improved performance. In fact, customer satisfaction scores in Argentina and Australia have improved since mystery shops were introduced.

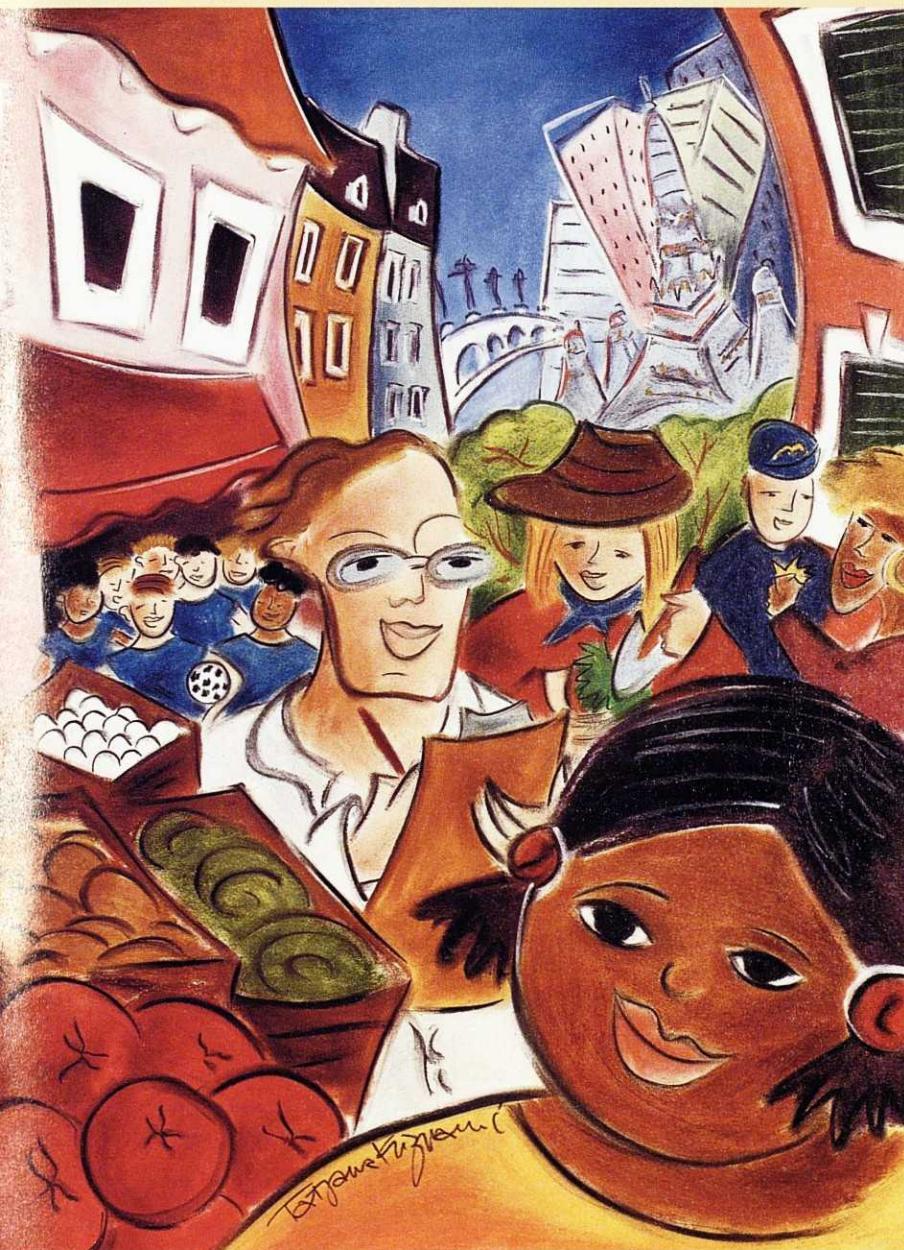
**"Satisfied customers are our goal
and our reward."**

*Jack Greenberg, McDonald's Chairman
and Chief Executive Officer*

Building on a strong heritage of values

McDonald's was founded on values. The entire McDonald's System owes a huge debt of gratitude to the men and women who shaped the Company in the early days and defined who we are and that for which we stand. We have never lost sight of the foundation they laid.

As a result, Brand McDonald's has earned the trust and confidence of people the world over. We earn the right to that trust each and every day. It is a fragile—yet priceless—asset. And we are committed to protecting and nurturing our Brand.



UNWAVERING COMMITMENT TO SAFETY AND QUALITY

McDonald's goes to great lengths to ensure that all aspects of our customers' experience, from the food we serve to the toys in our Happy Meals, meet our high-quality and safety standards.

To start, we are aligned with world-class suppliers that share our high standards, and our restaurant staffs around the world are trained in the proper storage, handling and preparation of our products. In addition, we continuously seek opportunities to raise the bar on our own stringent safety criteria, which always meet—and often exceed—those established by industry and governments.

For example, last year we intensified our leadership efforts in the area of meat safety through the formation of McDonald's International Scientific Advisory Council. This Council of leading scientists and medical experts from around the world reviewed key industry safety practices for beef. We are pleased that the members of the Council not only validated the McDonald's System's best practices, but also worked with us to identify new opportunities to further heighten the safety of our beef supply.

COMMUNITY INVOLVEMENT

We value the communities we serve and believe that it is important to give back to others on both a local and global level.

We are active in the communities in which we do business. This involvement extends from owner/operators' support of local soccer teams to being there in times of need. After all, that's what good neighbors do. The entire System of employees, franchisees and suppliers have a long history of helping those

**Our commitment to quality
and safety extends beyond our food
to all we do.**

less fortunate, including offering much needed assistance after natural disasters, such as earthquakes and hurricanes.

McDonald's also has long held the belief that we have a responsibility to protect the environment for future generations. Consistent with our leadership position on a host of environmental issues, we, in partnership with Conservation International, are collaborating with McDonald's suppliers to further integrate environmentally sustainable practices into their operations. Primary areas of focus include the conservation of water and energy and the safeguarding of animal and plant biodiversity.

RONALD McDONALD HOUSE CHARITIES

One of the more visible aspects of our ongoing commitment to others is our support of Ronald McDonald House Charities (RMHC). RMHC works tirelessly to improve the health and well being of children by funding programs that meet their special needs and by supporting more than 200 Ronald McDonald Houses, which provide a home-away-from-home for families of children with serious illnesses.

We are privileged and pleased that we can have a positive impact on the lives of children around the world and that many of our employees, franchisees, joint-venture partners, suppliers, shareholders and customers share our belief in, and support of, RMHC.

PEOPLE FIRST

At McDonald's, we value our people, their ideas and their contributions. We are committed to diversity, and do not and will not tolerate discrimination of any kind. In fact, treating people right is at the heart of our vision to be the best—and it is an expectation to which we hold the entire System.

We also value hard work and expect McDonald's people to give their very best. We empower them, hold them accountable for their decisions and actions, pay them fairly and reward them for performance.

We are gratified to note that last year, McDonald's received the prestigious Best Employer Award in Brazil. We also were recognized as one of the 100 Best Employers for Working Mothers in the U.S. and ranked third among America's Best Companies

for Minorities. Although we are proud of these and other achievements, we know that we can—and must—do more in order to become the best employer in each community around the world.

CASTING A LONG SHADOW

Honesty and integrity are at the very core of who we are. We are demanding...yet fair. We expect the same from those with whom we associate.

Our suppliers know that we expect them to maintain our high-quality and safety standards, to share our commitment to socially responsible activities, and to value and respect their employees.

Consistent with our philosophy of treating employees right, we insist that suppliers abide by McDonald's Code of Conduct, which describes how we expect them, as well as their suppliers who work on McDonald's business, to treat their employees.

Our commitment to good employee practices is not negotiable. We reserve the right to verify compliance by having external monitors conduct periodic, announced and unannounced inspections of the facilities making products for McDonald's. In addition, we emphasize dialogues, training and remediation. Although we will terminate suppliers when absolutely necessary, our objective is to help them to continuously improve.

BEING A GOOD NEIGHBOR



No one can forget the terrorist attacks on the U.S. last September. Nor should we. Our hearts go out to the many people who lost their lives in this tragedy and to their families and friends.

We are proud of the amazing response by those who spent countless hours working to rescue victims and remove the rubble. They indeed are heroes—a special kind of hero, as their work was both physically and emotionally difficult. We salute you!

Many members of McDonald's Family—owner/operators, employees, restaurant staffs and suppliers—also made us proud. These individuals pulled together in the aftermath of these horrific events to serve food to rescue and relief workers at the World Trade Center, the Pentagon and the crash site in Pennsylvania. And across the country, the McFamily stepped up to feed stranded travelers at airports and the volunteers at countless blood centers. Collectively, more than 750,000 McDonald's meals were served.

Like so many others, we have family, friends and colleagues among the victims of this tragedy. Yet, we are grateful that no one in the McDonald's Family was physically hurt. We also are grateful that we could make a small difference by helping others at a time of dire need.

Directors and corporate officers

As of February 1, 2002

Investor information and services

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Gordon Gray	Mats Lederhausen

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Charles Bell President—Europe
Donald Lubin
Walter Massey
Lynn Crump-Caine Executive Vice President
Henry Gonzalez, Jr. President—U.S. East Division
Robert Thurston
Jack Greenberg Chairman and Chief Executive Officer
Mats Lederhausen

Account inquiries and online transactions

Transfer agent, registrar and MCDirect Shares Administrator
EquiServe Trust Company, NA
Attn: McDonald's Shareholder Services
P.O. Box 2591 Jersey City NJ 07303-2591
www.equiserve.com
1-800-Mc1-STCK (1-800-621-7825)
from the U.S. and Canada
1-201-222-4990 call collect from outside the U.S. and Canada
1-201-222-4489 TDD for the hearing impaired

Other inquiries

Stock exchange listings

New York, Chicago, Euronext Paris, German and Swiss

Trading symbol

MCD

Annual meeting

May 23, 2002
10:30 a.m. Central Time
The Lodge
McDonald's Office Campus
Oak Brook IL 60523
Live webcast available on www.mcdonalds.com/corporate/investor

Website

www.mcdonalds.com

Forward-looking statements

Certain forward-looking statements are included in this report. They use such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of March 12, 2002. These forward-looking statements involve a number of risks and uncertainties. The following are some of the factors that could cause actual results to differ materially from those expressed in or underlying our forward-looking statements: the effectiveness of operating initiatives and advertising and promotional efforts, as well as changes in: global and local business and economic conditions; currency exchange and interest rates; food, labor and other operating costs; political or economic instability in local markets; competition; consumer preferences, spending patterns and demographic trends; legislation and governmental regulation; and accounting policies and practices. The foregoing list of important factors is not exclusive.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following trademarks used herein are the property of McDonald's Corporation and its affiliates: Big Don; Big Mac; Big N' Tasty; Boston Market; Chicken McGrill; Chicken McNuggets; Chicken Select Strips; Chipotle; Donatos; Edge To Edge; French Fry Box Design; Golden Arches Logo; Happy Meal; Le280; McBacon; McBLT; McCafé; McChicken; McCrispy; MCDirect Shares; McDonald's; McDougle; McFamily; McFlurry; McHero; McMuffin; McQueso; McPick; McPollo; McRib; McSalad; McSalad Shaker; McSnack; McSnack Spot; McTreat Spot; Mighty Kids Meal; New Tastes Menu; PlayPlace; Pret; Pret A Manger; Pret Cool; Quality, Service, Cleanliness and Value; Quarter Pounder; RMHC; Ronald McDonald; Ronald McDonald Care Mobile; Ronald McDonald House; Ronald McDonald House Charities; Sausage McMuffin; Spicy McWings; The Golden Arches; The Lodge; World Famous Fries; 1-800-Mc1-STCK; www.mcdonalds.com.

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**When you help a child, you help their family.
When you help a family, you help the community.
And when you help the community,
you change the world.**



RONALD McDONALD
HOUSE CHARITIES

General Counsel and Corporate Secretary

Gloria Santona

2002 individual investor fairs

February 2
NAIC Fair, Atlanta GA
March 9–10
Rukeyser Investment Conference, Las Vegas NV
October 12
NAIC Fair, Phoenix AZ

corporate/social

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Oak Brook IL 60523

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